Ethical Leadership

Leaders spend most of their time learning how to do their work and helping other people learn how to do theirs, yet in the end, it is the quality and character of the leader that determine the performance and results.

—Frances Hesselbein[1]

We say these are the values of the organization, and we all live them. Then, no matter what the situation, we never think, "Well, I can be slightly unethical today, but tomorrow I'll be better." It doesn't work that way. No matter how difficult the circumstances become, we stand and we act on principle.

—Frances Hesselbein[2]

This chapter presents a guide to ethical decision making in situations that will confront you as a leader and discusses several ethical perspectives that should help you make ethical decisions. There is constant debate as to where a chapter on ethics should appear in any book (e.g., textbooks, casebooks). In this book, we decided to place it last. We do this for one very specific reason. We want ethics and its intersection with leadership to be the last thing you read and consider as you finish your course on leadership. In our own teaching and research, we are struck by the number of times that what seem to be innocuous decisions can turn into very dicey ethical situations. Leaders are often presented with situations that require them to think through several ethical dimensions before making decisions. Consequently, we hope and expect that this chapter will be one you return to many times as you develop as a leader in the organization you join after you finish your current degree.

Concern regarding leaders and their ethics has been central to everyday life throughout our history. Unfortunately, it is also a very messy topic to research. Consequently, research regarding leaders

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[1]Bunker, Hall, and Kram (2010, p. 138).

[2]Bunker et al. (2010, p. 141).

and their ethics is very sparse (Yukl, 2012). Recent research (Ciulla, 1998; Phillips, 2006) has begun to delve into these issues. Ciulla (1998) discusses how leadership theory and practices may lead to a more just and caring society. Phillips (2006) defines CEO moral capital as "the belief that the CEO justly balances the disparate interests of individual and group stakeholders to achieve positive returns that benefit the firm, its stakeholders, and the CEO."

This definition describes how CEOs and other individuals are viewed by their followers, peers, and superiors and, as Phillips (2006) argues, is based on their perception of the CEO's (or an individual's) character and behavior.

A Definition of Ethics

In the Western world, the definition of ethics dates back to Plato and Aristotle. Ethics comes from *ethos,* a Greek word meaning character, conduct, and/or customs. It is about what morals and values are found appropriate by members of society and individuals themselves. Ethics helps us decide what is right and good or wrong and bad in any given situation. With respect to leadership, ethics is about who leaders are—their character and what they do, their actions and behaviors.

Ethical Theories

As suggested above, ethical theories fall into two broad categories: those theories related to leaders' behavior and those related to leaders' character. For those theories related to conduct, there are two types: those that relate to leaders' conduct and their consequences and those that relate to the rules or duty that prescribe leaders' conduct.

Those theories related to consequences are called *teleological theories* (*telos* being a Greek word for purposes or ends). These theories emphasize whether a leader's actions, behavior, and/or conduct have positive outcomes. This means that the outcomes related to a person's behavior establish whether the behavior was ethical or unethical.

Those theories related to duty or rules are called *deontological theories* (*deos* being a Greek word for duty). These theories focus on the actions that lead to consequences and whether the actions are good or bad. Those theories related to character are described as virtue-based approaches.

Teleological Approaches

There are three approaches to assessing outcomes and whether they are viewed as ethical. First, *ethical egoism* describes the actions of leaders that are designed to obtain the greatest good for the leader. Second, *utilitarianism* refers to the actions of leaders that are designed to obtain the greatest good for the largest number of people. Third, *altruism* describes the actions of leaders that are designed to demonstrate concern for others' interests, even if these interests are contrary to the leader's self-interests.

Deontological Approach

This approach is derived from *deos,* a Greek word meaning duty. It argues that whether or not an action is ethical depends not only on its outcome but also on whether the action, behavior, or conduct is itself inherently good. Examples of actions and behaviors that are intrinsically good, irrespective of the

outcomes, are "telling the truth, keeping promises, being fair, and respecting others" (Northouse, 2013). This approach emphasizes the actions of leaders *and* their ethical responsibility to do what is right.

Virtue-Based Approach

Virtue-based theories are related to leaders and who they are and are grounded in the leader's character. In addition, these virtues can be learned and retained through experience and practice. This learning occurs in an individual's family and the various communities with which an individual interacts throughout his or her lifetime. This perspective can be traced back to Plato and Aristotle. Aristotle believed that individuals could be helped to become more virtuous and that more attention should be given to telling individuals what to be as opposed to telling them what to do (Velasquez, 1992). Aristotle suggested the following virtues as exemplars of an ethical person: generosity, courage, temperance, sociability, self-control, honesty, fairness, modesty, and justice (Velasquez, 1992). Velasquez argued that organizational managers should learn and retain virtues "such as perseverance, public-spiritedness, integrity, truthfulness, fidelity, benevolence, and humility" (Northouse, 2013).

The Centrality of Ethics to Leadership

Ethics is central to leadership because of the nature of the relationship between leaders and followers. Leaders influence followers—this means they affect followers' lives either negatively or positively (Yukl, 2012). The nature of the influence depends on the leaders' character and behavior (particularly the nature and outcome of behaviors). Leaders have more power—interpersonal and/or formal hierarchical power—and therefore have a greater responsibility with respect to their impact on their followers. Leaders influence followers in the pursuit and achievement of common goals. It is in these situations that leaders need to respect their followers and treat them with dignity. In other words, leaders need to treat their followers as individuals with distinctive identities. Finally, leaders are instrumental in developing and establishing organizational values. Their own personal values determine what kind of ethical climate will develop in their organizations.

Ethical Leadership: The Perspectives of Several Leadership Scholars

In this section, we review the perspectives of two prominent leadership scholars as these perspectives relate to leadership and ethics. We focus on Heifetz (1994) and Burns (1978).

Heifetz and Ethical Leadership

Heifetz (1994) emphasized conflict and the responsibility of leaders to assist followers in dealing with conflict and effecting changes that come from conflict. He focused on the values of followers, the values of the organizations in which they work, and the values of the communities in which they live. For Heifetz, the paramount responsibility of leaders is to create a work atmosphere characterized by empathy, trust, and nurturance and to help followers to change and grow when faced with difficult situations (Northouse, 2013; Yukl, 2012).

Burns and Ethical Leadership

Like Heifetz (1994), Burns (1978) argued that leadership (especially transformational leadership, as described in Chapter 9) is about helping followers achieve higher ethical standards when differing values conflict—especially when conflict is confronted during difficult situations. He argued that the interaction of leaders and followers should raise the ethical behavior and character of both. Leaders would do this by assisting followers to emphasize values such as equality, justice, and liberty (Burns, 1978; Ciulla, 1998).

Both perspectives emphasize the relationship between leaders and followers and argue that this relationship is at the heart of ethical leadership. The ideas presented by these scholars are similar to and in agreement with Gilligan's (1982) ethic of caring. This has become a central principle in ethical leadership research and is considered of paramount importance to organizations because it is of critical importance in developing collaboration and trust among leaders and followers (Brady, 1999).

✍ Ethical Leadership Principles

In this section, we present five principles that are believed to lead to the development of ethical leadership. These are respect for others, service to others, justice for others, honesty toward others, and building community with others (DuBrin, 2010; Northouse, 2013).

Respect for Others

Ethical leaders treat others with dignity and respect. This means that they treat people as ends in themselves rather than as means to their own ends. This form of respect recognizes that followers have goals and ambitions and confirms followers as human beings who have worth and value to the organization. In addition, it leads to empathy, active listening, and tolerance for conflicting viewpoints.

Service to Others

Ethical leaders serve others. They behave in an altruistic fashion as opposed to behaving in a way that is based on ethical egoism. These leaders put followers first—their prime reason for being is to support and nurture subordinates. Service to others is exemplified through behaviors such as mentoring, building teams, and empowering (Kanungo & Mendonca, 1996).

Justice for Others

Ethical leaders ensure that justice and fairness are central parts of their decision making. This means treating all subordinates in very similar ways, except when there is a very clear need for differential treatment and there is transparency about why this need exists. In addition to being transparent, the logic for differential treatment should be morally sound and reasonable.

Honesty Toward Others

Ethical leadership requires honesty. Dishonesty destroys trust—a critical characteristic of any leader–follower relationship. On the other hand, honesty increases trust and builds the leader–follower relationship. Honesty means to be open with others by expressing our thinking and our reality as fully as we can. This means balancing openness with disclosing only what is appropriate in a given scenario. Dalla Costa (1998) says that honesty for leaders means the following:

Do not promise what you can't deliver, do not misrepresent, do not hide behind spin-doctored evasions, do not suppress obligations, do not evade accountability, do not accept that the "survival of the fittest" pressures of business release any of us from the responsibility to respect another's dignity and humanity. (p. 164)

We would argue that leaders need to ensure that *what they believe, what they think, what they say,* and *what they do* are internally consistent. This internal consistency, along with openness, will build trust among followers toward the leader.

Building Community With Others

Ethical leaders build community with others. This is crucial because leadership is about influencing others to achieve a communal goal. This means that leaders develop organizational or team goals that are appropriate for the leader and his or her followers. These goals need to excite as many people as possible, and ethical leaders achieve this by taking into account the goals of everyone in the team or organization.

How Does Ethical Leadership Work?

We are hoping that this chapter will enable you to better understand yourself as you develop your leadership skills, knowledge, and abilities. Use the thinking on ethical leadership in this chapter as a guide in making your decisions. Remember that the relationship between you and your followers is at the heart of ethical leadership and requires that you show sensitivity to others' needs, treat others in a just manner, and have a caring attitude toward others. Being an ethical leader will be easier if you entrench the following questions into your thinking (Northouse, 2013):

- Is this the right and fair thing to do?
- Is this what a good person would do?
- Am I respectful to others?
- Do I treat others generously?
- Am I honest toward others?
- Am I serving the community?

Ethical leaders must be concerned with more than running their businesses. They must be concerned with their employees, their customers, their suppliers, their communities, their shareholders, and themselves. Leadership is influencing people to achieve communal goals; ethical leadership is achieving those goals in a way that is fair and just to your employees, your customers, your suppliers, your communities, your shareholders, and yourselves (Daft, 2011; Phillips, 2006).

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✉ The Cases

Lee and Li, Attorneys-at-Law and the Embezzlement of NT$3 Billion by Eddie Liu (A)

Dr. C. V. Chen received news that one of Lee and Li's senior assistants had found a loophole in a power of attorney from one of the firm's clients, SanDisk Corporation (SanDisk), that had allowed him to illegally sell the client's shares in a Taiwanese company and to sneak out of Taiwan with more than NT$3 billion. Unfortunately, Lee and Li had no insurance to cover this embezzlement. Chen knew that the three senior partners needed to develop a plan of action to save the law firm, take care of the lawyers and other employees, maintain the reputation of the firm within Taiwan and abroad, do what was best for SanDisk and Lee and Li, and keep the more than 12,000 clients from deserting the firm.

A Non-Traditional Female Entrepreneur (C)

In September 2010, Jane Liu was pondering the future development of her company. As the founder CEO of New Deantronics (ND), she knew the next few years would bring major change to ND. The last couple of years had been eventful: in 2009, ND had moved to a brand new facility with three-times the space of its old location; furthermore, ND's revenue growth from 2008 to 2009 was 33%—about twice the growth from 2007 to 2008. ND was thriving even while other companies were suffering from the 2008–2009 global financial crises. The need for rapid expansion was so great that Liu knew that, within the next three months, she had to recruit around 100 good-quality employees and train them efficiently to fill ND's ever-growing influx of orders. In addition, she was expecting that she would triple revenue with no more than twice the manpower; she wanted to be a large part of fostering the development of the medical device industry in Taiwan; and she needed to develop the people who would be ND's next senior leadership team. Liu was not sure how to achieve these three goals; she had built ND on a culture of sincerity and teamwork.

✉ The Reading

Principled Leadership: Taking the Hard Right

What makes a leader the most principled is a certain solidity at the core, a solidity founded on principles that are, essentially, points on a moral compass. Those principles are visible in the actions of some leaders, while other leaders act according to convenience. These authors lay down a blueprint that will allow a leader to be guided by principles.

Lee and Li, Attorneys-at-Law and the Embezzlement of NT$3 Billion by Eddie Liu (A)[1]

Yeong-Yuh Chiang and W. Glenn Rowe

Dr. C.V. Chen was shocked and speechless. Paul Hsu, one of Lee and Li's most senior partners, had just briefed him and Kwan-Tao Li about the actions of Eddie Liu, one of the firm's senior assistants. Liu had found a loophole in a power of attorney from one of the firm's clients that had allowed him to illegally sell the client's shares in a Taiwanese company and to sneak out of Taiwan with NT$3.09 billion (approximately US$92 million). Unfortunately, Lee and Li had no insurance to cover this embezzlement.

Many questions raced through Chen's mind: What about the firm? How would this action affect the more than 550 lawyers and employees? How would other clients react to the news of this crime? Would this breach of trust ruin the firm's reputation in Taiwan and abroad? Would the firm survive and remain financially stable? What should the firm do for the client whose shares had been used to perpetuate the fraud and theft by Liu?

Chen knew that action had to be taken quickly. The questions whirled in his head as he considered what he, Hsu and Kwan-Tao Li, the three most senior partners at Lee and Li, needed to do today, tomorrow, next week and over the next several months.

October 13, 2003 would forever be seared into Chen's memory.

✉ The Firm: Lee and Li, Attorneys-at-Law

The firm that later became Lee and Li had been founded in Shanghai, China, in the mid-1940s.

James Lee, one of the two founders, had commenced practicing law with Allman and Kopps, and, in 1948, the firm was named Allman, Kopps and Lee. Dr. C.N. Li, the other founding partner, had also practiced in Shanghai during the 1940s. Both James Lee and C.N. Li were specialists in international legal matters.

In 1953, James Lee established his own law office in Taipei, Taiwan, and, in 1965, he was joined by C.N. Li. James Lee died in 1970, and Li renamed the firm Lee and Li. After C.N. Li died in 1973, Paul Hsu, Kwan-Tao Li (C.N. Li's son) and C.V. Chen, together with other senior partners, led the firm through extraordinary growth to become one of the largest law firms in Asia and the largest in Taiwan. Considered by many to be the top law firm in that country,[2] Lee and Li had offices in the cities of Taipei, Taichung, Hsinchu, Tainan and Kaohsiung.

Lee and Li's core values encompassed three principles: caring for people, excellence in quality and client service. A core goal was "doing well by doing good." The firm's motto "we care, we serve, we excel" was prominently displayed at the entrance to the firm's head office in Taipei. The partners and staff believed that adherence to these principles had made the firm a leader in each of its 28 practice areas. The firm was involved in the development of public policies and in promoting the rule of law in Taiwan and elsewhere, particularly in China. The firm had advised Taiwan's government on vital social and economic policies, and several firm members had helped draft new governmental legislation.

[1]This case has been written on the basis of public sources. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Lee and Li or any of its partners and employees.

[2]"Plugging the Loopholes," editorial, *Taipei Times*, October 18, 2003, p. 8; Jimmy Chuang, "Fugitive Liu Wanted in Hong Kong," *Taipei Times*, June 24, 2004, p. 1.

Lee and Li lawyers had been involved in judicial reform and constitutional litigation work that were considered landmarks. Their work on pro bono cases had won them a reputation for "being a leader in public interest work in Taiwan." In 1999, the firm established the Lee and Li Foundation, a not-for-profit organization dedicated to promoting education and rule of law.

Lee and Li had several thousand clients, many of whom had been with the firm for decades. One-third of these clients were headquartered in Taiwan, and the rest were foreign firms. Companies from the United States, Europe and Japan had utilized Lee and Li's services. The firm's client list included internationally well-known firms, such as General Electric, Ford, 3M, Bank of America, City Bank, IBM, Sony, McDonald's and Siemens. Over the years, Lee and Li had represented almost all of the Fortune 500 firms and the multinational banks that were doing business in Taiwan.

Lee and Li's attorneys were globally connected, and several were fluent in English or Japanese in addition to their native tongue, Chinese. They were graduates of top law schools in countries such as Taiwan, the United States, and Japan (see Exhibit 1 for brief résumés for Chen and Li). Lee and Li's attorneys enjoyed long-standing relationships with law firms in North America, Asia and Europe. Collaboration on cross-border deals with other law firms was routine for Lee and Li attorneys. To better serve clients operating in the Greater China region, Lee and Li had established strategic alliances with Lee and Li Business Consultants (Shanghai) Ltd. and Lee and Li—Leaven IPR Agency Ltd. in Beijing.

Lee and Li had achieved a stellar reputation and received many awards for its outstanding work in the areas other than intellectual property. The firm had received several awards for its work in "managing intellectual property" (see Exhibit 2 for a list of awards, honors and recognition for Lee and Li from 1998 to 2002).

From its beginnings, the firm had developed the largest intellectual property practice in Taiwan, and in the 1970s, had been extensively involved in foreign direct investment growth into Taiwan. The firm pioneered the development of the banking and capital markets practice in the 1980s and had been pivotal in the establishment of the technology and law practice in the 1990s. Lee and Li was structured into four departments (corporate, banking and capital markets, trademark and copyright, and patent and technology) with Hsu, Chen and Li jointly managing the operations. Although the associate partners and staff worked almost exclusively for one of the four departments, they would, as a rule, engage in cross-fertilization with their colleagues in the other departments.

The Client: SanDisk Corporation (NASDAQ: SNDK)

SanDisk Corporation (SanDisk) was founded in 1988 by Dr. Eli Harari, a world-renowned authority on non-volatile memory technology. Based in Sunnyvale, California, the company was the world's largest supplier of flash memory data storage card products. It designed, manufactured and marketed "industry-standard, solid-state data, digital imaging and audio storage products using its patented, high density flash memory and controller technology."[3] SanDisk was the only company that had the rights to manufacture and sell every major flash card format, including CF, SD, miniSD, SmartMedia, FlashDisk, MMC, MemoryStick Pro, xD-Picture cards and USB flash drives. The company did not operate fabrication facilities, but used a multiple-sources strategy to fluctuate its supply with changes in demand. SanDisk controlled a significant portion of its flash memory wafer manufacturing

[3]"SanDisk . . . Its Taiwan Law Firm," *Business Wire,* November 15, 2003, p. 1.

through its joint venture, FlashVision, and many other strategic arrangements with fabrication facility owners. These strategic and contractual partners included Toshiba, Samsung, Renasas Technology, United Microelectronic Inc. (UMC) and Tower Semiconductor Ltd. Such a multiple-sources strategy enabled SanDisk to concentrate on product designs and development of its core competency. SanDisk received a majority of its revenue from direct sales to retailers.

On September 30, 2003, SanDisk owned 147.8 million shares in UMC, one of its contractual partners in Taiwan. Twenty million of these shares were held by SanDisk with the remaining 127.8 million shares under the control of Lee and Li. SanDisk had sold 35 million UMC shares during the month of September for approximately US$30 million. The 127.8 million UMC shares controlled by Lee and Li were valued at US$83.3 million, based on cost, and were worth US$106.6 million based on trading price on the Taiwan Stock Exchange on September 30, 2003.

At SanDisk's previous fiscal year end on December 29, 2002, it reported revenues of US$541,273,000 with net income of US$36,240,000. Its diluted net income per share was US$0.26. SanDisk had working capital of US$584,450,000, total assets of US$973,579,000, long-term debt of US$150,000,000 and stockholders' equity of US$627,720,000. The company was doing well financially and was on an upward trajectory (see Exhibit 3 for the quarterly financial data as of September 28, 2003).

The Senior Partners: Hsu, Chen and Li

Paul Hsu, C.V. Chen and Kwan-Tao Li, together with other senior partners who had retired before the turn of the century, had led the firm since the deaths of the founders, James Lee and C.N. Li.

Kwan-Tao Li joined the firm in August 1969. In addition, he started teaching at Soochow University Law School and Fu Jen Catholic University that same year. Li had graduated from New York University Law School with his master's degree of law and had a master's of business administration from Kellogg/Hong Kong University of Science and Technology. Hsu had joined the firm in September 1969, preceding Chen by about four years. Chen joined in 1973 after having received his SJD (doctorate in law) from the Harvard Law School in 1972 and having taught at National Chengchi University Graduate School of Law. Together, Hsu, Chen and Li had been with Lee and Li for a combined 98 years.

The Perpetrator: Eddie Liu

Liu had graduated from National Chunghsing University with his bachelor's of law degree. He joined Lee and Li in December 1989 as a legal assistant. Liu handled non-litigation cases in the firm's corporate and investing department and was responsible for investing and mergers and acquisitions. He performed well and was considered a capable assistant. Although he was a law school graduate and a capable assistant, Liu had failed to pass the Taiwanese bar exam. On August 1, 2003, he approached the management of the firm and asked for a 12 month's leave without pay to prepare for the bar exam. Management approved his request on October 1 because the 41-year-old Liu was a trusted employee.

The Embezzlement: NT$3 Billion[4]

In 2002, SanDisk authorized Lee and Li to file an investment application with the Taiwanese

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[4]Sheree Shiow-Ru Ma and Mei-Cyue Lee, "Internal Control and Employee's Fraudulent Behaviors," *Accounting Research Monthly,* No. 218, January 1, 2004.

government. This application was required to allow the remittance of the return on investment (the dividend) and the principle in the case of divestment to SanDisk because of the Taiwanese government's foreign exchange control. This arrangement required that SanDisk give Lee and Li a power of attorney. The power of attorney should have empowered Lee and Li only to interact with the government on SanDisk's behalf. However, it contained a clause that allowed Lee and Li to deal with the brokerage house holding SanDisk's shares in UMC. This clause meant that Lee and Li's representative could talk to the brokerage house on behalf of SanDisk. For this clause to have been included in the power of attorney was very unusual. The inclusion of the clause should have been noted by Lee and Li and deleted. The power of attorney authorized Lee and Li to make chops (signets) for SanDisk, and any transaction involving SanDisk required both these chops and those containing the name of Hsu, all of which were secured in a vault at Lee and Li.

In July 2002, Lee and Li, in its role representing SanDisk, opened a trading account in the investment firm KGI and a deposit account in Chang Hwa Bank. The proceeds from the sale of any shares acquired by SanDisk in Taiwanese firms were to be used to invest in mainland China and in Taiwan. Because of the flawed clause in the power of attorney and because of his position in the firm, Liu gained unauthorized access to the passbooks and chops for both accounts and could transact business through both accounts without any "actual" permission and/or supervision. He was not legally authorized to make any transactions but he had access to the tools that allowed him to do so.

In July 2003, SanDisk deposited 183 million UMC shares in the KGI account. Liu applied for a leave of absence on August 1 to prepare for his bar examination and immediately moved into a five-star hotel, having left his Peitou District residence in Taipei. During August, he privately opened several accounts for SanDisk at Asia Securities,

United World Chinese Commercial Bank (a branch in Taiwan and a branch in Hong Kong), Taipei Bank, Hwatai Bank, Shanghai Commercial and Savings Bank, and Chang Hwa Bank. All accounts were under the name of SanDisk Corporation except for the bank account in the Hong Kong branch of the United World Chinese Commercial Bank, which was opened in the name of "SanDisk Investing Corporation."

From August 2 to 9, Liu, having forged the authorization document required, had transferred 120.3 million UMC shares from the KGI account to the Asia Securities account. He then conspired with private investment consulting firms to bid up the price of the UMC stock. From August 6 to 28, he sold the shares and obtained NT$3.09 billion (US$92 million). During August and September, to eliminate any trace of the NT$3.09 billion, he laundered the money by buying diamonds and travelers' checks with the money he had remitted to the Hong Kong account.

During September, the Money Laundering Prevention Center (MLPC) of the Taiwanese government was informed of the huge amount of funds transfers but the information indicated that it was a routine notification of a "huge amount transfer" in excess of NT$1 million. The transaction did not appear to be illegal for two reasons: First, the information MLPC received said that "SanDisk Corporation" had transferred earnings from the sale of UMC's stock to "SanDisk Investing Corporation" in Hong Kong, not to another company or individual; second, it appeared that Liu was fully authorized by both SanDisk and Lee and Li to sell the shares and transfer the earnings. Therefore, the transaction was judged a legal transfer by the MLPC.

Around the end of September and beginning of October, Liu handed over his files to his colleagues, ostensibly in preparation for his leave without pay, and he intentionally withheld any files related to SanDisk. On October 1, Liu's leave without pay was approved; however, he continued to go to the office until Thursday,

October 9. At 2:00 p.m. on October 9, Liu left Lee and Li and proceeded directly to the airport. He bought his ticket at the airline counter using as his travel documents both his roommate's passport and his Tai Bao Zheng (a travel document required for people from Taiwan to legally enter mainland China). He then flew to Hong Kong from where it was much easier to transfer the diamonds and travelers' checks to a bank in a city within mainland China, such as Shanghai.

✉ Lee and Li's Dilemma: What to Do?

Chen was informed of Liu's embezzlement on Monday, October 13. October 10 had been a national holiday and October 11 and 12 was the weekend. Liu's colleagues had reconciled his files early on Monday and noticed the discrepancy. This finding led to the discovery of Liu's malfeasance, which was reported to Paul Hsu, who immediately briefed C.V. Chen and Kwan-Tao Li. The embezzlement left all of the partners in jeopardy because Lee and Li had no insurance to cover the NT$3 billion. In Taiwan, the partners in law firms shared unlimited liability, which meant that all of Lee and Li's partners faced the possibility of losing all of their personal possessions as well as their professional livelihood and standing.

Chen knew that, as the senior partners, the three of them needed to develop a plan of action that would save Lee and Li; take care of the lawyers and other employees, as well as their families; keep Lee and Li's reputation within Taiwan and abroad intact; do what was best for SanDisk and Lee and Li; and keep the more than 12,000 clients from deserting the firm. Chen knew that he, Hsu and Li had to act quickly and decisively. Liu's embezzlement would become public knowledge within hours, or the next day at the latest.

Exhibit 1

Brief Résumé for C.V. Chen

Place of Birth: Yunan, China.
Nationality: Republic of China (on Taiwan).

Education

S.J.D., Harvard (1972); LL.M., Harvard (1970); LL.M., University of British Columbia (1969); LL.B., National Taiwan University (1967).

Experience

Professional: Chairman and Managing Partner, Lee and Li Attorneys-at-Law, Taipei, Taiwan; Adjunct Professor of Law, National Chengchi University Graduate School of Law, Taiwan, (1972–present); Lecture Professor of Law, Guanghua School of Management, Peking University, China; Lecture Professor of Law, School of Law, Tsinghua University, China; Chairman of Guanghua Law School Council, Zhejiang University, China; Lecturer, the Training Institute for Judges and Prosecutors, the Ministry of Justice of the Republic of China.

(Continued)

Exhibit 1   (Continued)

Pro Bono:

President, The Red Cross Society of the Republic of China (April 2000–present); Chairman, Taipei European School Foundation, Taiwan, the Republic of China (1994–present); Director, Lee and Li Foundation; Managing Director, Chinese (Taiwan) Society of International Law (Jan. 2004–present).

Honors

Honorary President, Harvard Club of Republic of China on Taiwan (1989–present); Recipient of the Order of Resplendent Banner with Special Cravat from the President of the Republic of China in 1989 for contribution to the upgrading of legal education and establishment of procurement system in the armed forces; Recipient of other medals and awards from the government of the Republic of China on Taiwan.

Publications

Numerous articles on transnational legal problems

Brief Résumé for Kwan-Tao Li

Place of Birth: Shanghai, China.
Nationality: Republic of China (on Taiwan).

Education

MBA, Kellogg-HKUST; LL.M., New York University Law School, Graduate Division; LL.B., National Taiwan University.

Experience

Chief Counsellor, Lee and Li, Attorneys-at-law; Chairman, Lee and Li Foundation; Chairman, Lee and Li Business Consultants (Shanghai), Ltd; Director, Far Eastern Medical Foundation; Director, Yen Tjing Ling Medical Foundation; Director, Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation; Director, Asia Cement Corporation; Director, Far Eastern Textile Ltd; Director, Tai Yuen Textile Co., Ltd.; Supervisor, Yulon Nissan Motor Co., Ltd.; Associate Professor of Law, Chinese Culture University (1985–1998); Lecturer of Law, Soochow University Law School (1969–1999); Lecturer of Law, Soochow University Graduate Law School (1972–1985); Lecturer of Law, National Taiwan Institute of Technology (1975–1979); Lecturer of Law, Fu Jen Catholic University (1969–1971); Director, Yuan Ze University (1987–1999).

Member

Member, State Bar of New York.

Language

Mandarin, English, Cantonese, Shanghainese

Practice Area

Corporate; Entertainment; Fair Trade; Intellectual Property Rights; International Mergers and Acquisitions; Labour; Maritime; Trademarks.

Co-Author

Co-author of "A Study on Economic Contract Law of Mainland China," published by Chinese Culture University; Contributor to *Trade and Investment in Taiwan: The Legal and Economic Environment in the R.O.C.*, Published by University of Washington.

SOURCE: http://www.leeandli.com/web/e/default.htm, accessed June 8, 2008.

Exhibit 2	Awards, Honors and Recognition for Lee and Li

Managing Intellectual Property

1998	Voted No.1 Firm for Non-patent Work in Taiwan 1997
1999	Voted No.1 Firm for Trade Mark and Copyright Work in Taiwan 1998
2000	Voted No.1 Firm for Patent in Taiwan 1999
2000	Voted No.1 Firm for Trade Mark/Copyright in Taiwan 1999
2001	Voted No.1 Firm for Patent in Taiwan 2000
2001	Voted No.1 Firm for Trade Mark/Copyright in Taiwan 2000
2002	Voted No.2 Firm for Patent in Taiwan 2001
2002	Voted No.2 Firm for Trade Mark/Copyright in Taiwan 2001
2003	Voted No.2 Firm for Patent in Taiwan 2002
2003	Voted No.1 Firm for Trade Mark/Copyright in Taiwan 2002

International Financial Law Review

2001	Law Firm of the Year
2001	Pro Bono Award
2002	Regional Law Firm of the Year
2003	National Law Firm of the Year

Global Competition Review

2002	The GCR 100: A Survey of the World's Leading Competition Law Practices and Economists

SOURCE: http://www.leeandli.com/web/e/default.htm, accessed June 8, 2008.

Exhibit 3	SanDisk Corporation 2003 Supplementary Quarterly Data (In Thousands, Except per Share Data)

| | Quarters Ended | | |
	March 30	June 29	September 28
Revenues			
Product	$155,448	$214,044	$259,446
License and royalty	$19,032	$20,582	$21,954
Total revenues	$174,480	$234,626	$281,400
Gross profits	$71,591	$88,772	$113,635
Operating income	$34,686	$46,659	$66,803
Net income	$24,925	$41,326	$14,770
Net income per share			
Basic%	$0.18	$0.30	$0.11
Diluted%	$0.17	$0.26	$0.09

SOURCE: 2003, SanDisk Corporation's Annual Report on Form 10-K, 20.

A Non-Traditional Female Entrepreneur (C)

Yeh-Yun Lin and W. Glenn Rowe

In September 2010, Jane Liu—president and founder of New Deantronics (ND) was in deep thought in her new office pondering the future development of her company. Two major events had prompted her to think about ND's future development: firstly, in 2009, ND had moved to a brand new facility with three-times the space of its old location; secondly, ND's revenue growth from 2008 to 2009 was 33 per cent—about twice the growth from 2007 to 2008 (see Exhibit 1). While other companies were suffering from the 2008–2009 global financial crises, Liu's company was thriving. The need for rapid expansion was so great that she had to strategize in order to meet her short-term, mid-term and long-term goals. Within the next three months, she had to recruit around 100 good-quality employees and train them efficiently to

fill ND's ever-growing influx of orders. By 2017, she expected to triple revenue with no more than twice the manpower. In the long run, she wanted to be a large part of fostering the development of the medical device industry in Taiwan. Liu was not sure how to achieve these three goals; she had built ND on a culture of sincerity and teamwork.

✉ A Culture of Sincerity and Teamwork

Starting from scratch with the ambition to do business with major global medical device companies—and with a self-established high quality standard—Liu undertook the daunting task through her determination, sincerity and humbleness, planning to learn from whoever could and would teach her. She was fortunate that people in many major medical device companies were willing to give her an opportunity to learn and to try small orders, even though she candidly let them know that she did not yet have the relevant background. Her sincerity and confidence in her own ability to supply the best products possible won her the small orders that she needed. What was on her mind at that time was mainly that having a major customer is an efficient way to upgrade product quality, for she knew that such a company would provide technical assistance in order for her products to comply with the requested quality standards. A major U.S. medical device company—Covidien (previously named Valleylab)—sent employees to Taiwan to help ND improve its production process and enhance its product quality; afterwards, the two companies co-developed the electrosurgical pencil and became effective partners.

Through her sincere and humble attitude, Liu became friends with a key person at Olsen Surgical. At the initial stage, she often visited this gentleman for technical assistance; both parties knew that the interaction was merely for technical advice, based on their friendship. Afterwards, even though there was no need for technical assistance, Liu would drop by to have a chat when she was nearby. No business relationship was expected until one day when Olsen Surgical encountered a big problem with a supplier and needed a substitute to ensure delivery of a product; Liu was the first person this gentleman thought of, and ever since then Olsen Surgical has been a major customer of ND.

Another story often told in the industry was how Liu had settled payment when Johnson & Johnson (J&J) decided to withdraw from the electro-surgery device market and unexpectedly cancelled orders in 2003. J&J offered a full payment to compensate for ND's loss. By law, Liu could have accepted the full payment. Yet, her sincerity, empathy and firm belief of only getting what she deserved resulted in a different decision. She asked only for compensation for the materials that she had already paid for. With J&J as ND's second largest customer at that time, it was the only year in its history ND experienced negative revenue growth. However, Liu's willingness to only ask for what she had paid won ND the reputation in the U.S. market for being a supplier who could be trusted. A few years later, when J&J needed other types of medical product, ND was invited to be a certified supplier again.

Liu also believed that internal and external teamwork helped ND grow. Internally, employees were the best partners. Consequently, employee benefits were always in her mind. Caring policies included flexible working hours for pregnant women, child care, free annual health checks, free parking, work-family life balance encouragement, well-planned training, and nine more days than government regulated annual leave. As early as the late 1990s, ND had implemented a five-work day system, which was rare in Taiwan at that time. Liu also promoted an equal employment opportunity culture in terms of promotion and gender in her company. She had successfully built a family-like team culture and received a "Friendly Workplace" award from the Taiwan Bureau of

Labor Affairs in 2007, the first year such an award was conferred.

Externally, Liu invited her customers and suppliers to be her team members. Customers were her quality instructors and inspectors, and they had helped ND produce world class products. Customers had become her R&D partners as well. Further, suppliers with uncompromised quality had become ND's long-term partners.

It took Liu about 10 years to achieve her first goal—to be a premier "made in Taiwan" medical device manufacturer. It took more than 20 years for ND to advance from being an original equipment manufacturer (OEM) to being an original design manufacturer (ODM) and then to being an original brand manufacturer (OBM) with the capabilities of research and development, manufacturing, quality assurance, sterilization, and marketing. Over this 20 year period ND also became a trusted core player in the medical devices supply chain. In particular, ND was proud to have become the sole supplier of the Philip patented Auto External Defibrillator (AED).

✉ Future Expansion

Currently, ND's sources of revenue consisted of 70 per cent from the United States and 25 per cent from Europe. Recent expansion had been targeting markets in Japan and Korea. ND had adopted a three-segment strategy in the global market. First, ND had developed several relationships with major global device companies; second, ND went into private labeling for medium size, geographically significant companies; and third, ND developed its own branded products for distribution in selected market segments. This multi-faceted global strategy provided ND with consistent revenue growth and returns.
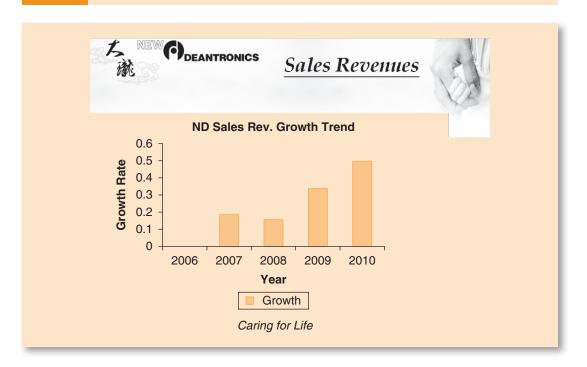
The long-term mission of ND was to foster a medical devices industry cluster in Taiwan. Having suffered from the inability to secure requested materials and facilities locally during its growth, ND fully understood the importance of clustering. Taiwan's current metal industry and plastic industry could help grow the medical device industry in Taiwan. The clustering effect, for example high-tech industries in Hsin-Chu Science Park, would have exposure and be able to attract talented people to join the advancement of the medical device industry in Taiwan.

As Liu pondered the future of ND she wondered what strategy would achieve her goals for growth and what she would need to do to ensure the strategy was well executed. In the next three months ND needed to recruit 100 high-quality employees. These new employees would need to be trained efficiently to fill ND's ever-growing influx of orders.

In the next seven years or so, she wanted to triple ND's sales with no more than twice the number of people currently working for ND. In addition, she needed to develop the third generation leaders who would replace her and her senior management team. By 2017, she wanted to retire with ND in capable hands and with a well-entrenched culture of sincerity and teamwork.

In the longer term she wanted to be a large part of fostering the development of the medical device industry in Taiwan.

Exhibit 1

Principled Leadership: Taking the Hard Right

Gerard H. Seijts and Hon. David Kilgour

What makes a leader the most is a certain solidity at the core, a solidity founded on principles that are, essentially, points on a moral compass. Those principles are visible in the actions of some leaders, while other leaders act according to convenience. These authors lay down a blueprint that will allow a leader to be guided by principles.

On August 30, 2004, former New York City mayor Rudolph Giuliani delivered a riveting speech at the Republican National Convention. "They [the media] ridiculed Winston Churchill. They belittled Ronald Reagan," Giuliani said. "But like President Bush, they were optimists, and leaders must be optimists. Their vision was beyond the present and set on a future of real peace and true freedom. Some call it stubbornness. I call it principled leadership."

Unfortunately, in the recent (and not so recent) past, we have seen too many leadership failures—too many examples of individuals in leadership positions who were unable to deal with the "great responsibility" that they were given. More specifically, too many so-called "leaders" did not exercise principled leadership. For example:

- Harry Stonecipher came out of retirement in 2003 to help restore Boeing's reputation after an ethics scandal. Stonecipher helped write a new code of conduct that, he indicated, would apply to all people in the Boeing organization. Yet Stonecipher violated that very code when he began an affair with a female Boeing executive. The board asked him to resign.
- WestJet Airlines admitted that its "highest management levels" were behind an elaborate scheme to steal commercially sensitive information from arch-rival Air Canada. A court case resulted in which WestJet admitted to wrongdoing and agreed to pay $5.5 million in investigation and legal bills, plus a $10 million donation to charity. On its web site, WestJet identifies nine "legendary values," among them: "we are honest, open, and keep our commitments," and "we treat everyone with respect." Did the actions of the senior leadership put a dent in the values on which WestJet was built?
- Several members of Hewlett-Packard's executive team employed a series of "disturbing" tactics (e.g., obtaining private phone record using false pretenses) in an effort to trace those board leaks. This led to the resignation of Chairman Patricia Dunn, and state and federal investigations. CEO Mark Hurd stated that the "tactics do not reflect the values of HP." Hewlett-Packard's core values include "we conduct our business with uncompromising integrity" and "we have trust and respect for individuals."

Leadership today is about winning the trust and respect of constituents, including citizens, shareholders, employees, and customers. But should these constituents place their trust (and money) in a leader's hands? Constituents take the time to evaluate the character, competence and commitment of those that are (or aspire to be) in leadership positions. And anytime there is a gap between what the leader says and does the credibility of that leader will suffer. Therefore, it is no surprise that individuals get disillusioned when their leaders prove themselves to be only mere images of the values that they espouse. It is under such conditions that people believe that their "leaders" do not show principled leadership. As a result, the dynamic currency of leadership depreciates, compromising the leader's ability to lead. In this article, we describe principled leadership and how it keeps leaders on the right course.

What Is Principled Leadership?

Alan Yuspah, senior Vice President, Ethics, Compliance and Corporate Responsibility, the Hospital Corporation of America Inc., identified three essential elements of principled leadership.

- **The articulation of certain principles or values.** Leaders need to decide what their personal or organizational values are and provide leadership consistent with these espoused or internalized values. Does the leader "live" the values in the business decisions that he or she has to make? Does the leader stick with his or her stated values no matter how difficult the business challenges prove to be? Consider the challenge that Ed Clark, the President and CEO, TD Bank Financial Group, recalled in a recent presentation to MBAs. To paraphrase him: We are trying to be an

inclusive workplace, and we believe in diversity of all kinds: women, visible minorities, gays, and so forth. We are supportive of the gay community; we sponsor the Pride parade. However, I get letters from customers, that state: If you want to defy God's will then I don't want to bank with you. Clark and the TD Bank Financial Group remain committed to their diversity initiatives.

- **The principled leader is able to make tough decisions.** Principled leaders make a conscientious effort to get all the relevant information to make an informed decision and to see that their decisions are consistent with their values and those of the organization. The leadership of Flight Director Eugene Kranz during the Apollo 13 crisis is a compelling example. For years, he had championed a strong set of values: discipline, morale or confidence, toughness, competence, commitment, and teamwork. Observers of the space program have said that it was these characteristics that formed the culture that would keep Kranz's team together both in good times and, in particular, in bad times. In business settings, good leaders must be principled but also pragmatic—their principles cannot paralyze them from taking action. The principled person nearly always feels guilty that s/he cannot live up to his/her finest aspirations.

- **Principled leadership is reflected in how leaders deal with other people.** Those individuals in leadership positions should never forget that the "how" is as important as the "what." For example, humility and integrity should be part of a principled leader's behavioral repertoire. Manuel London, a management scholar and practitioner, and Director of the Center of Human Resource Management, at the State University of New York, indicates that principled leaders always try to understand the various points of view and reach common ground without hostility, and without working over, around, or through other people. This is a key message that leaders such as Ed Clark, George Cope (President and COO, Bell Canada), Michael McCain (President and CEO, Maple Leaf Foods), and Lt.-Gen. (ret.) Romeo Dallaire keep telling our MBA students. But, as London explained, principled leaders do not ignore the tough realities of business; they have mastered the art of business diplomacy. In his words, "They work together to enhance interpersonal work relationships and are particularly valuable in making tough decisions, resolving emotional conflicts, and negotiating sensitive issues."

The 16th President of the United States, Abraham Lincoln, can inspire all of us in our own careers. For example, in *Team of Rivals: The Political Genius of Abraham Lincoln,* author Doris Kearns Goodwin writes that Lincoln was able to defeat more privileged and accomplished rivals for the Republican nomination in 1860 because his life experience had forged a character that allowed him to put himself in the place of other persons, to know what they were feeling and to understand their fears, motives and desires. This same character allowed him to bring his rivals into his cabinet and marshal their talents to preserve the Union and win the war. Goodwin wrote that Lincoln was "... plain and complex, shrewd and transparent, tender and iron-willed ... His success in dealing with the strong egos of the men in his cabinet suggests that in the hands of a truly great politician the qualities we generally associate with decency—kindness, sensitivity, compassion, honesty and empathy—can also be impressive political resources."

✉ How to "Get" Principled Leadership?

It is foolish to believe that there is a single most important determinant of principled leadership. There are actually four determinants, and they come in to play at the individual, group, and organizational levels. We list examples in this particular order. We do not assume that our list is complete.

1. Upbringing and Life Experiences

Retired Lieutenant-General Romeo Dallaire is the former head of the United Nations Peacekeeping Force in Rwanda. He witnessed genocide. Dallaire shared the following anecdote with a group of MBAs enrolled in a leadership course. A young lieutenant and his platoon enter a small village which had been the scene of a massacre. The troops notice a ditch with women and children, several who are hacked to pieces; others are bleeding to death. There is no doubt that these people are going to die. It is hard for the soldiers to just stand by and be a witness to these people dying. What should they do? The reader should know that, before the war, over 30 per cent of Rwandans were infected with HIV or had AIDS. Soldiers do not run around with protective gear, such as rubber gloves, and have scrapes, cuts, bruises, and wounds due to the nature of their business. What should the young lieutenant order the soldiers to do? Should he order the troops not to help and to march on because of the risk of contracting the devastating disease? Or should he order the troops to console and help the women and children? The Lieutenant figures that people are dying and that the soldiers have a moral or ethical duty to assist these people in any possible way. Dallaire went to his 26 commanders and explained the dilemma. He found out that 23 commanders would order the troops *not* to go in and help; three would assist, including the Canadians. The

question then is, "For what reasons do some troops get in the ditch and assist the women and children, even with the risk involved, whereas others do not?" Dallaire believes that training has something to do with this. But perhaps more important, he articulated, it is the upbringing and the fundamental beliefs or values that Canadians espouse. Two of these beliefs are that human rights are important, and that every human is human . . . one person is not more human than the other.

2. Reflection

The development of one's leadership skills requires actual leadership actions, followed by reflection or debriefing. As a principled leader, do we take the time to pause and think about how we are doing in terms of the goals we have set for ourselves? Leaders are often under intense pressure to produce results. This is a plus when the leader has mastered important skills or performance routines. But what about those behaviors that require our continued attention because the objective is to develop these behaviors? Sometimes we need to be in a learning mode. For example, leaders can focus on several questions or "tests," including a hypothetical Globe and Mail headline. Would they like to see the action they were contemplating on tomorrow's front page? Could they live with the headline? Could they explain their actions to their 10-year-old child? Seeking the advice of an executive coach who can help develop skills is becoming increasingly common for business executives.

3. Role Models

Gandhi considered modeling the moral example as the prime duty of a ruler, including the head of a family or the owner of a business. Studies have shown that people's behavior is shaped, in part, by their observation of others. For example, Albert Bandura, the David Starr Jordan Professor of Social Science in Psychology, at

Stanford University, and famous for his work on social learning, wrote:

> Learning would be exceedingly laborious, not to mention hazardous, if people had to rely solely on the effects of their own actions to inform them what to do. Fortunately, most human behavior is learned through modeling: from observing others one forms an idea of how new behaviors are manifested and perform; on later occasions this coded information serves as a guide for action.

Mentoring is consistent with Bandura's social learning theory; it involves learning in a social situation whereby a person models the behavior of a more experienced teacher or colleague. Seymour Schulich, a successful Canadian businessman and philanthropist, recently observed that, "I live the axiom that 100 years from now, it won't matter how much money you had, how big a house you lived in or what kind of car you drove. But if you are important in the life of a young person, you might make a difference. So I make time for young people and try to act as a mentor." We know that without the modeling of leadership behaviors, standards of principled leadership will be more difficult to achieve. This is because leaders help to set the tone of behavioral norms and organizational culture.

4. Code of Ethics and Communication

Organizations should have a code of ethics or a set of guiding values. Leaders should assess decisions or actions against that code. This is how the Johnson & Johnson organization was so successful in dealing with the Tylenol crisis. This is why organizations such as General Electric, Maple Leaf Foods, and TD Bank Financial Group are spending a lot of time on defining their core values and how to "live" those values. The events at Boeing discussed earlier show that a code of ethics can be effective. But a willingness to act on

the code is required. One of the main purposes of a code of ethics is to provide guidelines that help people decide what actions to take from an ethical or organizational culture point of view. The importance of values and a code of ethics must be conveyed from the top of the organization—the CEO and his or her leadership team. The leader should make values a salient aspect of the leadership agenda so that the significance of these values does in fact reach those individuals in lower-level positions.

For example, leaders can explain how a set of values guided the decision making process. Consider the following actual event. Roy Vagelos, a former senior vice-president of research at Merck, and CEO, decided to give away a drug that prevented river blindness to all those who need it and who could not afford it. Former chairman of Merck, George W. Merck, explained, "We try never to forget that medicine is for the people. It is not for the profits . . . The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been." The message? Values or guiding principles are important in making tough business decisions. Vagelos was later asked whether he would have committed his company to the costly program even without the benefits of strengthening its reputation, bolstering its recruiting, and the creation of shareholder value. He explained that he had no choice as his whole life had been dedicated to helping people.

✉ The Challenges of Principled Leadership

There can be challenges to "living the values" and a leader's principled approach to decision-making. For example, an activist group went after Ford Motor Co. and Walt Disney Co. because it believed the two companies were destroying traditional American values by supporting gay and lesbian rights. In his 2002 book *Leadership*, Giuliani recounts the events that

took place in October 1995, the year in which the United Nations celebrated its 50th anniversary. The New York City Host Committee had raised money to sponsor several events, including a concert at Lincoln Center's Avery Fisher Hall. Who showed up? Yasser Arafat. Giuliani had specifically excluded the Palestinian delegation, as well as delegations from Cuba, Iraq, Iran, Libya, North Korea, Somalia, and Yugoslavia. Giuliani had special contempt for Arafat and so he had him thrown out. An international scandal was born. *The New York Times* and the Clinton administration condemned Giuliani's action. But Giuliani was convinced that he was on the right side; his core set of principles, and Arafat's ongoing terrorist activities, drove his behavior. In his words, "Some Americans are unable to face up to the fact that there really are evil people."

Sooner or later, therefore, leaders face the challenge of how to remain true to their principles, in particular, when other people put pressure on them. Most leaders operate in a fast-paced and complex world, where principles often collide. It is sometimes very difficult to do "the right thing" for both employees and shareholders, for customers and employees, for taxpayers and clients of the social welfare system. We conclude this article with five prescriptions that, we believe, will make people more receptive to principled leadership. These are the things that leaders can do to continue to "walk on water" as opposed to swimming or sinking.

1. Executives Should Be Model Citizens

John Edward Poole of Edmonton, who died recently at the age of ninety, is a hard-to-beat exemplar. On retiring as CEO of Poole Construction Ltd. (now PCL Construction Ltd.) in 1977, he and his brother George sold their majority stake to the organization's employees rather than accept the highest offer. (Today, the organization remains 100 percent owned by employees.) During the next three decades, he and his wife, Barbara, gave tens of millions of dollars, often on a sustained endowment basis, to a host of cultural, educational, social and environmental institutions in their city. The couple also led fund-raising campaigns for many good causes. *Edmonton Journal* columnist, Paula Simons, noted in a tribute, "(John Poole) believed that every man owed a duty to his fellow citizens. He understood that living in a city isn't just about occupying space—it's about participating in the life of a community. It's about taking responsibility for the future."

2. Stick to What You're Good At

How many businesses in Canada and elsewhere have been harmed or ruined by a senior leadership team that ventures into new activities or markets without enough advance study of conditions or an inadequate understanding of its own circle of competence? For example, Southwest Airlines' returns to shareholders over three decades have outdone even those of Warren Buffett's legendary Berkshire Hathaway. Southwest has no hotels, no travel businesses or real estate speculations. Both management and employees know what the airline is good at and stick to it: low-cost reliable air transportation. In an industry where profits rarely seem to last more than a year or two, Southwest continues to flourish. Contrast this approach with organizations such as K-Mart, ASDA, and Nortel that at some point struggled with strategic drift, unable to provide a clear direction in their activities. The implications for personal leadership? It is important to have a core set of convictions, or focus; without it, leaders yield to all kinds of pressures, and little gets achieved. Senator and former Democratic nominee for U.S. President John F. Kerry was seen as a mess of contradictions on various issues important to the American public. People perceived him as a flip-flopper; he lacked a clear focus. Bush won re-election, in part, because Americans wanted clear and consistent leadership.

3. An Inclusive Corporate Culture

Nucor Corporation, the out-performer in the American steel industry for many years, and one of America's most-admired organizations, is a good case study here. Its former CEO, F. Kenneth Iverson, is quoted in Jeremy J. Siegal's excellent book, *The Future for Investors*, as attributing most of the company's success to ". . . the consistency of our company and our ability to project its philosophies throughout the whole organization, enabled by our lack of layers and bureaucracy." The philosophy of "no favourites" among all members of the corporate team is demonstrated in myriad ways. Distinctions between executives and other employees are even difficult to detect. For example, there is no executive dining room at Nucor's head office. All employees of the company are listed alphabetically in the annual report, with no distinctions for titles. There are no company vehicles or aircraft and no assigned parking places. All employees receive the same amount of vacation time and insurance coverage. Ideas won't get buried in bureaucracy; the freedom to try out ideas gives Nucor a distinct advantage over other companies: a creative, get-it-done workforce. Every employee is a member of the same winning team.

4. Have Sound Whistleblower Protection or Processes for Information Flow

Sherron Watkins, the ex-Enron executive who first confronted former CEO Kenneth Lay about her suspicions of accounting improprieties, became a national "hero" when her memos to Lay were leaked to the American media. She had attempted, without success, to protest Enron's accounting practices to other executives as early as 1996, but got nowhere. The then-CFO of Enron, Andrew Fastow, wanted her fired, but senior management could find no reasonable cause.

Every organization should have policies in place to protect the Sherron Watkinses of the world and to ensure that valid concerns are acted upon with deliberate speed. "Information patriots," as Canadian whistleblowers now often prefer to be called, are still usually forced to give up their careers in the offices where they encountered and confronted wrongdoing. Consider, for example, the fate of Joseph Darby, the U.S. Army Specialist who turned in the pictures of prisoner abuse at Abu Ghraib. He was a hero to some; Caroline Kennedy and Senator Ted Kennedy gave him a Profile In Courage award in honor of President John F. Kennedy. But Darby could not return to his home because he had been threatened. Darby was supposed to remain anonymous, but former Secretary of Defense Donald Rumsfeld identified him without warning on national television, a gesture that some say was more about payback than an attempt to honor the whistleblower. There are scores of whistleblowers or information patriots that have paid a steep price for their courage to speak up. Responsible CEOs should ensure that people like Watkins and Darby are regarded as role models for all employees.

CEOs should appreciate the eyes and ears of their employees. Transparency is important; some even consider it an outright competitive weapon. Former U.S. Supreme Court Justice Louis Brandeis once said, "Sunlight is the best disinfectant." The quote refers to the benefits of openness and transparency. Some well-known organizations have made it their objective to operate in an atmosphere of avowed openness. Their leadership opines that individuals who feel a discomfort under the bright light of scrutiny may have something to hide. Those in leadership positions cannot solve problems if they don't know about them. Leaders are well-advised to create routes for their employees to express their views, so that maximum, not minimum, information is used in their decision-making.

5. Boards of Directors Should Encourage CEOs to Speak Out Responsibly on Public Issues

How many of our business leaders have had the courage to speak out from a responsible

perspective against income trusts? Or take climate change, the very inconvenient and doubtless most important issue facing humanity today. Recently, the Intergovernmental Panel on Climate Change, drawing on the work of thousands of scientists around the world, reported that all of us on the planet have only a decade to reverse surging greenhouse gas emissions or risk severe climate change that would render numerous regions of the world uninhabitable. A cover story in a recent *Economist*, "The Greening of America," indicated that corporate America is now among the loudest voices calling for emission controls and other measures designed to reduce the output of carbon dioxide and greenhouse gasses. For example, the CEO of Duke Energy, James Rogers said about reductions, "It must be mandatory, so that there is no doubt about our actions . . . The science of global warming is clear. We know enough to act now. We must act now." Not enough business voices appear yet have joined the parade on the issue in our own country. And for CEOs and the senior leadership team to do so effectively, they need the support of their board of directors; organizations should speak with one voice.

In her 2006 memoir titled *Tough Choices*, former Hewlett-Packard CEO, Carly Fiorina, writes about success and the importance of character. "Character was everything, and character was defined as candour, integrity, and authenticity. Candour was about speaking the truth, and about speaking up and speaking out. Integrity was about preserving your principles and action on them. Authenticity was about knowing what you believed, being who you were, and standing up for both." Fiorina explains that leaders can always choose to become something more. We suggest they can (and should) choose to work on their principled leadership, as it appears there is considerable room for improvement. A recent poll of 1,000 Canadians found that 93 per cent of respondents rated firefighters as trustworthy. In contrast, CEOs were considered trustworthy by just 21 per cent of the adult Canadians who were polled by Ipsos Reid; this number is virtually unchanged since 2002. Only union leaders (19 per cent), local politicians (12 per cent), national politicians and car salespeople (both at 7 per cent) ranked below CEOs in the "whom do we trust" survey. When asked what criteria they considered in rating the trustworthiness of people, the respondents indicated they used factors such as integrity, reliability, and commitment to promises in their ratings. These factors, of course, characterize the principled leader. But we also note that principled people sometimes cross the barrier between being right and being righteous. The first is admirable the second just alienates people.